

HOUSE BILL REPORT

HB 1495

As Reported by House Committee On:
Local Government & Housing

Title: An act relating to real estate excise tax exemptions to stabilize neighborhoods.

Brief Description: Providing real estate excise tax exemptions to stabilize neighborhoods.

Sponsors: Representatives Pettigrew, Nelson, Kenney, White and Ormsby.

Brief History:

Committee Activity:

Local Government & Housing: 2/2/09, 2/12/09 [DPS].

Brief Summary of Substitute Bill

- Exempts qualifying low-income buyers and qualifying nonprofit housing organizations from paying real estate excise taxes with respect to the purchase of foreclosed/unoccupied housing.
- Limits the total amount of exempted taxes to \$750,000 per year statewide and ends the exemption for the duration of that year once the \$750,000 threshold is reached.

HOUSE COMMITTEE ON LOCAL GOVERNMENT & HOUSING

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives Simpson, Chair; Nelson, Vice Chair; Angel, Ranking Minority Member; Miloscia, Short, Springer, Upthegrove, White and Williams.

Minority Report: Do not pass. Signed by 2 members: Representatives Ericksen, Assistant Ranking Minority Member; Cox.

Staff: Thamas Osborn (786-7129)

Background:

The real estate excise tax (REET) is imposed on each sale of real property, which includes both the transfer of ownership and the transfer of controlling interests. Real property

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includes any interest in land or anything affixed to land. The state tax rate is 1.28 percent. County legislative authorities may also impose an excise tax on each sale of real property in unincorporated areas of the county. Similarly, city legislative authorities may impose an excise tax on each sale of real property within the city's corporate limits. The combined rate of such county and city taxes may not exceed 0.25 percent of the selling price. The combined state and local REET rate in most areas is 1.78 percent or less.

Summary of Substitute Bill:

This act creates a tax incentive program to encourage the sale of affordable housing to low-income families and promote the sale of homes that are vacant as the result of foreclosures.

The sale of a "qualifying residential housing unit" to a "qualifying buyer" is exempt from the imposition of the REET. A "qualifying organization" exercising an option to repurchase a property or which sells a residence to a qualifying buyer is also entitled to the REET exemption. Key terms are defined as follows:

- "Qualifying buyer" means an individual and his or her spouse/domestic partner who: (1) is purchasing a qualifying residential housing unit through a fixed rate mortgage; (2) has not owned a home during the preceding three-year period; (3) has household disposable income that is at or below 80 percent of the median income in the area and; (4) who meets other requirements, including the completion of an approved financial education program. The Washington State Housing Finance Commission or other approved entity must certify that the buyer meets the requisite criteria.
- "Qualifying residential housing unit" means a new residential housing unit, or a residential housing unit that has been foreclosed and is unoccupied due to the foreclosure.
- "Qualifying organization" means a nonprofit entity that is both: (1) a tax exempt 501 (c)(3) organization; and (2) primarily engaged in the business of building or rehabilitating residential housing units.

The REET exemptions authorized by the act do not apply to REETs imposed by a county or city unless the municipality has adopted a resolution or ordinance authorizing such exemptions.

This statewide dollar amount of this REET exemption is limited to \$750,000 in a given fiscal year. The annual statewide REET exemption cap is calculated in the aggregate by combining the REET exemptions provided to both qualifying buyers and qualifying organizations in a given year. Once the amount of exempted REET taxes reaches this \$750,000 threshold, the Department of Revenue must end the exemption program for the duration of that fiscal year. The REET exemption program ends as of December 31, 2013.

The act expires as of July 1, 2013.

Substitute Bill Compared to Original Bill:

The substitute bill makes the following changes to the original bill:

- The REET exemptions authorized by the act do not apply to REETs imposed by a county or city unless the municipality has adopted a resolution or ordinance authorizing such exemptions.
- The \$1 million cap on the amount of aggregate, statewide REET exemptions authorized in a single year is reduced to \$750,000.
- Clarifies the act by explicitly establishing that the annual statewide REET exemption cap is calculated in the aggregate by combining the REET exemptions provided to both qualifying buyers and qualifying organizations in a given year.
- Redefines "qualifying organization" to mean a nonprofit entity that is both: (1) a tax exempt 501(c)(3) organization; and (2) primarily engaged in the business of building or rehabilitating residential housing units.
- Eliminates the requirement that the fixed-rate mortgage for a qualifying residential unit must be for a term of 30 years.
- Reorganizes the structure of the act and makes numerous changes to terminology and definitions in order to promote clarity. Most of these revisions are largely technical or organizational and do not involve significant substantive revisions.

Appropriation: None.

Fiscal Note: Available. New fiscal note requested on February 13, 2009.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of the session in which the bill is passed.

Staff Summary of Public Testimony:

(In support) This bill takes a needed step towards providing affordable housing for low-income families while at the same time providing incentives for the purchase of foreclosed and vacant housing units. Housing prices are going up, while incomes are not, which makes things very difficult for low income buyers. Also, the number of vacant homes due to foreclosures has become an epidemic problem that can have a terrible economic impact on value of the remaining, occupied homes. Vacant homes drive down surrounding property values and destabilize neighborhoods. This bill provides tax incentives to get vacant homes filled with low-income families and thus get the vacant homes off of the market. The bill provides a good tool for promoting affordable housing and creating stable neighborhoods.

(With concerns) The mechanics of implementing the provisions of the bill are unclear and problematic.

(Opposed) None.

Persons Testifying: (In support) Representative Pettigrew, prime sponsor; Velma Valoria, Homesight; Nick Federici, Washington Low-Income Housing Alliance; and Jeanette McKague, Washington Association of Realtors.

(With concerns) James McMahan, Washington Association of County Officials.

Persons Signed In To Testify But Not Testifying: None.